



Germany's Natural Cosmetic Market

Uta Leuschner-Kirst

U.S. Commercial Service Germany

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Summary

Germany's natural cosmetics market is the booming segment of an overall stagnating German body care market. Specifically, substances from plants and high-quality ingredients are in high demand with the increasingly health-oriented German consumer. Natural cosmetics are no longer solely purchased to protect the environment, but to positively impact body and soul.

The Market

Whereas the market for conventional cosmetics and toiletries stagnated or slightly decreased during the past years, Germany's market for natural cosmetics is thriving, with a total value of EUR 650 million in 2004. The market boom is attributable to food scandals like BSE, and increases in skin diseases and allergies. Between 5 - 10% of almost 30 million allergic persons in Germany show allergic reactions to certain conventional cosmetic ingredients. As a result, an estimated one fourth of consumers favor "natural" cosmetics products.

In Germany, low consumer spending and stagnant economic conditions have contributed to flat sales of conventional cosmetics and toiletries. According to the Industry Association for Body Care Products and Washing Detergents (Industrieverband fuer Körperpflege- und Waschmittel e.V. - IKW) the market for cosmetics amounted to EUR 11 billion in 2004, a decrease of sales by 1.7 % from the previous year. Nonetheless, Germany continues to rank third in the world cosmetics market after the United States and Japan. In Europe, Germany constitutes the largest cosmetics market followed by France, the United Kingdom, Italy, Spain and Russia.

The cosmetics market according to product groups is presented below. Most product groups have seen stagnation for the past four years, with hair and skin care products dominating the market.

The Market for Cosmetics Products (at retail sales prices) in EUR million

	2000	2001	2002	2003	2004
Product categories					
Hair care	2,755	2,839	2,837	2,862	2,808
Skin care	2,339	2,332	2,350	2,459	2,419
Decorative cosmetics	1,279	1,281	1,255	1,286	1,261
Oral hygiene	1,172	1,192	1,185	1,156	1,182
Ladies' perfumes/fragrances	787	787	785	764	750
Men's cosmetics	676	669	658	644	640
Bath & shower products	754	754	742	735	708
Deodorants	657	675	671	680	646
Soaps & syndets	225	221	210	214	203
Other*)	384	385	398	434	429
Total market	11,028	11,135	11,091	11,234	11,046

Annual growth (percent)

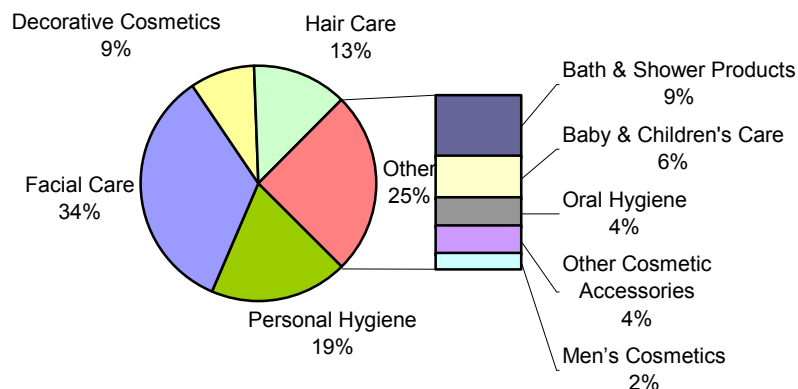
	99/00 +/- %	00/01 +/- %	01/02 +/- %	02/03 +/- %	03/04 +/- %
Product categories					
Hair care	4.5	3.0	-0.1	0.9	-1.9
Skin care	3.5	-0.3	0.8	4.7	-1.6
Decorative cosmetics	11.9	0.2	-2.1	2.5	-1.9
Oral hygiene	5.4	1.7	-0.5	-2.5	2.2
Ladies' perfumes/fragrances	0.1	0.0	-0.3	-2.7	-1.8
Men's cosmetics	0.6	-1.0	-1.6	-2.2	-0.6
Bath & shower products	1.5	0.0	-1.6	-0.9	-3.7
Deodorants	1.4	2.7	-0.7	1.4	-5.0
Soaps & syndets	-1.7	-1.8	-5.0	1.9	-5.1
Other*)	5.2	0.2	3.5	9.1	-1.3
Total market	4.1	1.0	-0.4	1.3	-1.7

*) Baby care, foot care, intimate hygiene, powder, depilatories, etc

Source: IKW Working Group

Contrary to the overall market's downward trend, natural cosmetics grows at a double-digit rate with annual sales of EUR 650 million in 2004. With a market share of 6.3% of the total cosmetics market, natural cosmetics is considered a niche market with good growth potential. Since official statistics are not yet available for natural cosmetics, analysts can only confirm a considerable growth in this sector and distribution of the respective product groups as follows:

Market Distribution in the Natural Cosmetics Industry



Source: biovista-Handelspanel fuer den Kosmetikmarkt

End-Users

Consumers purchase natural cosmetics for the following reasons: Life style, attention to quality, and the fact that they buy products, which have not been tested on animal. End-user's attention to product quality is a direct result of allergies resulting from synthetic substances in conventional cosmetic products. The magazine "Ökotest," is the most popular decision-making tool among Germans for the first-time purchase of a natural cosmetics product. It tests all kinds of consumer goods, especially those that claim to be ecologically "correct." In addition to consumers suffering from skin irritations and allergies, pregnant women and young mothers are a major target group for natural cosmetics. Exposure to natural care products takes place during their pregnancy and later to natural baby care products after the child has been delivered.

Natural Cosmetics Legislation

As early as 1993, the Bundesgesundheitsministerium (BGM - German Federal Ministry of Health) established a task force to develop certification guidelines for natural cosmetics. The task force recommendations became the basis for a draft European-wide directive. Until the directive comes into effect, the European Council offers the following guidelines to which some EU members adhere to: http://www.coe.int/T/E/Social_Cohesion/soc-sp/natcosE.pdf.

In Germany, draft legislation of the Ministry of Health was considered impractical, and approximately 50 natural cosmetics manufacturers came up with their own definition for guidelines. The Bundesverband Deutscher Industrie- und Handelsunternehmen für Arzneimittel, Reformwaren und Körperpflegemittel e.V. (BDIH - Federal Association of German Manufacturers and Traders of Drugs, Health and Body Care Products) established a working group to develop a standard, comprising desirable and feasible industry requirements. Since April 1998, the directive for "Controlled Natural Cosmetics" (CNC) has been officially accepted by industry although it is not yet clear which institutions will monitor the compliance with this guideline. The BDIH guideline is not legally binding for any natural cosmetics manufacturer but a call for voluntary commitment. Cosmetics products manufactured according to "CNC" will be labeled with a proprietary label.

In general, the CNC guideline stipulates standards for natural cosmetics products with regard to the preparation and production of cosmetics raw materials and their processing. For the preparation of processed raw materials, the guidelines are explicit that natural processes should not be seriously disturbed. Protection of endangered species plays an important role, and genetic engineering of animals and plants is flatly rejected. Raw materials should be carefully processed into cosmetics products with a minimum of chemical processing. Minimum packaging and eco-friendly packaging material are further requirements.

The detailed BDIH guideline is available from on the web at:

<http://www.kontrollierte-naturkosmetik.de/index.htm>

As, however, the term "natural cosmetics" is not legally binding, natural cosmetics must also adhere to the same guidelines, restrictions and obligations as conventional cosmetics products.

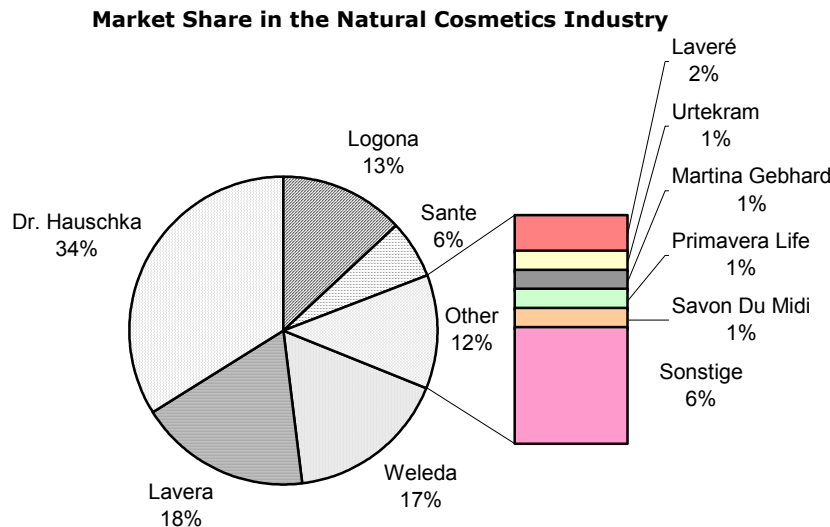
Distribution channels

Given that natural cosmetics are only a small part of the total market for toiletries, the industry is continuously looking for new distribution channels and target groups. Whereas the "Reformhaus" (Natural (Food) Products Store aka Organic Food Store) used to be the traditional distribution channel for natural cosmetics, many companies which are already well represented in these stores push now into drugstore chains and, to a smaller extent, into pharmacies. These distribution channels prove to be most popular and the easiest point of sales, since they carry many daily-use products and are located within "walking distance" to the consumer. It is also known that consumers tend to make more "spontaneous purchases" in drugstore chains than in the "Reformhaus." Product series ranging from body care products without synthetic colors, fragrances or preservatives for those individuals suffering from hypersensitivity, to decorative cosmetics, baby, children and special men's cosmetics are well received in many larger of these stores and drugstore chains. With two exceptions, purchases in pharmacies play only a subordinate role: natural cosmetics products of Dr. Hauschka and Weleda sell well in pharmacies, since their products are being marketed via pharmaceutical wholesalers.

Newcomers to the German natural cosmetics market must decide between two basic approaches to enter the drugstore market: The direct placement of the product and the private label production of a drugstore chain's brand. Drugstore chains with their own brand are:

dm-Drogeriemarkt with Alverde
Rossmann with Alterra, and
Idea with Apotheke Scheller.

The top four brands of the German natural cosmetics market are Dr. Hauschka Kosmetik, Lavera GmbH, Logona and Weleda AG. They account for more than 80% of total sales of natural cosmetics.



Source: biovista-Handelspanel für den Kosmetikmarkt

Market Entry

U.S. firms interested to enter the German market should have innovative ideas for formulations, a convincing product assortment that differs from existing conventional cosmetics products and they should present novelties standing out from other existing natural cosmetics products. An absolute must for manufacturers of natural cosmetics is the use of appropriate natural raw materials and a good knowledge of marketing strategies. Product developments which are eudermic, eco-friendly and produced with non-irritant natural raw ingredients will find a market in Germany.

Market Access

Cosmetics products do not require the CE mark for the EU market. There is no requirement for certification or pre-market approval. Instead, there is in-market control by German health authorities.

Each EU member state designated a competent authority, usually a ministry or government agency (a link to a listing of competent authorities is included below). The competent authorities must be notified of the production site or the place of first importation into the

EU before the product is placed on the EU market. Manufacturers or their direct importers or agents must perform this notification. In Germany, the responsible authority is the Bundesamt für Verbraucherschutz und Lebensmittelsicherheit (BVL - Federal Agency for Consumer Protection and Food Safety):

Bundesamt für Verbraucherschutz und Lebensmittelsicherheit
Rochusstrasse 65
D - 53123 Bonn
Germany
Tel: +49-228-619-80
Fax: +49-228-619-8120
E-mail: postelle@bvl.bund.de
Internet: <http://www.bvl.bund.de>

Basic export procedures for cosmetic products to the EU, and other useful information can be found on one of the following websites:

The EU cosmetics directive:
<http://pharmacos.eudra.org/F3/cosmetic/cosmetlex.htm>

Direct access to the Seventh Amendment to the Cosmetics Directive:
http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_066/l_06620030311en00260035.pdf

European Commission Enterprise DG on Cosmetics:
<http://pharmacos.eudra.org/F3/home.html>
http://www.europa.eu.int/comm/enterprise/sectors_en.htm

Complete list of national competent authorities in the cosmetics sector:
http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/c_087/c_08720040407en00190031.pdf

For detailed and up-to-date information on the cosmetics industry, the European Cosmetic Toiletry and Perfumery Association:
<http://www.colipa.com/home.html>

Proposal for animal test ban amendment:
http://europa.eu.int/comm/trade/whats_new/cosm_ani.htm

Commission explanation on Cosmetics durability symbol:
http://pharmacos.eudra.org/F3/cosmetic/doc/1210_0_RAPID_EN.pdf

Commission Directive 2003/80/EC on new durability symbol:
<http://pharmacos.eudra.org/F3/cosmetic/doc/200380/EN.pdf>

European Commission references to the International Nomenclature for Cosmetic Ingredients:
<http://pharmacos.eudra.org/F3/inci/index.htm>

FDA notification on cooperation with EU with regard to alternatives to animal testing:
<http://vm.cfsan.fda.gov/~dms/cosint99.htm>

Council Directive 67/548/EEC on dangerous substances and its amendments:
http://europe.osha.eu.int/legislation/directives/leg2.php3?cat_id=1.1&ctab=cat_c

Scientific Committee on Cosmetics Products and Non-Food Products intended for Consumers (SCCNFP):
http://europa.eu.int/comm/health/ph_risk/committees/sccp/sccp_en.htm

Associations and Market Research Institutions

Information concerning applicable laws and regulations can be obtained by contacting one or more of the following associations and institutions:

Industrieverband Körperpflege und Waschmittel (IKW – German Cosmetics, Toiletry, Perfumery and Detergent Association)
Karlstrasse 21
60329 Frankfurt/Main
Tel: +49-69-2556-1323
Fax: + 49-69-23-76-31
Email: info@ikw.org
Internet: <http://www.ikw.org>

Bundesverband Deutscher Industrie- und Handelsunternehmen fuer Arzneimittel, Reformwaren und Körperpflegemittel e.V. (BDIH - Federal Association of German Manufacturers and Traders of Drugs, Health and Body Care Products)
L11, 20-22
68161 Mannheim
Tel: +49-621-1294330
Fax: +49-621-152466
Contact: Dr. Reinhold A. Brunke (Chemist for the cosmetics industry)
Email: bdhi@ghp-ma.de
Internet: <http://www.bdi.de>

Verband der Reformwaren-Hersteller e.V. (VRH – Association of Natural Products Manufacturers)
Frankfurter Landstr. 23
61352 Bad Homburg
Tel: +49-6172-4068-0
Fax: +49-6172-4068-99
Email: vrhe@aol.com
Internet: <http://www.afr-vrh.de>

Herstellerverband natuerlicher Körperpflegemittel und Kosmetik (HMK – Manufacturer Association for Natural Body Care Products and Cosmetics)
C/o Angelika Tränkle
Helmholzstr. 2-9
10587 Berlin
Tel: +49-30-391-1091
Fax: +49-30-391-1093

Verband Deutscher Drogisten (VDD – Association of German Druggists)
Vogelsanger Strasse 165
50823 Köln
Tel: +49-221-952917-0
Fax: +49-221-952917-20
Internet: <http://www.drogistenverband.de>

Verband der Vertriebsfirmen kosmetischer Erzeugnisse (Association of Companies
Distributing Cosmetic Products)
c/o Markenverband
Schöne Aussicht 59
65193 Wiesbaden
Tel: +49-611-5867-0
Fax: +49-611-5867-27
Internet: <http://www.kosmetikverband.de>

Bundesgesundheitsministerium (BGM - Federal German Health Ministry)
Probsthof 78a
53121 Bonn
Tel: +49-188-441-0
Fax: +49-188-441-4900
Internet: <http://www.bgm.bund.de>

Internationaler Herstellerverband gegen Tierversuche in der Kosmetik e.V. (IHTK –
International Manufacturers Association against Animal Testing in Cosmetics)
Feldkircher Str. 4
71522 Backnang
Tel: + 49-7191-9804-72
Fax: + 49-7191-9705-15
Email: mail@ihtk.de
Internet: <http://www.ihtk.de>

Questions regarding the ingredients used, the formulae and chemical composition of the
cosmetic product, should be addressed to the

Bundesinstitut fuer Risikobewertung (Federal Institute for Risk Assessment)
Poststelle
Thierallee 88-92
14195 Berlin
Tel: +49-30-8412-0
Fax: +49-30-8412-4741
Email: poststelle@bfr.bund.de
Internet: <http://bqv.de>

Germany, as other EU states, has a market-driven economy and American companies will find
an open economy and free movement of capital; business profits can be transferred without
restriction. Often, foreign products are imported initially on a secured basis. After a period of
successful transactions and a continuing business relationship, it is customary to deal on an
open account basis.

In general, a representation or distribution agreement will be governed by an agreement signed between the parties. German civil law and European law specify certain termination and compensation provisions for agency agreements, which will prevail unless otherwise excluded. Moreover, termination of distribution agreements without cause may be subject to certain compensation requirements in the event of a dispute. Professional legal assistance is recommended when entering into representation or distribution agreements.

Additional information on marketing U.S. products and services in Germany is contained in our "Country Commercial Guide," which is available through one of the U.S. Export Assistance Centers and on the web at <http://www.export.gov>.

Trade Promotion Opportunities

FUSE

FUSE – Featuring U.S. Exporters: U.S. manufacturers looking for sales leads or potential sales representatives in Germany can list their products and services on the German-language version of the U.S. Commercial Service website, <http://www.buyusa.gov/germany>, which targets an audience of German importers and commercial buyers.

Commercial News USA

Commercial News USA is the official United States Department of Commerce showcase for American-made products and services. The catalog-style magazine is designed to help American companies promote products and services to buyers in more than 145 countries. Each issue reaches an estimated 400,000 readers worldwide. For more information, please visit: <http://www.thinkglobal.us>.

Major Trade Publications

In Germany, trade publications are important promotion vehicles. Listed below are the leading trade publications for the German natural and conventional cosmetics industry, which are suitable for advertising U.S. natural cosmetics. Detailed information and current advertising rates are available upon request.

Öko-Test-Magazin

Published on a monthly basis by the
Öko-Test-Verlag GmbH & Co. KG
Postfach 90 07 66
60447 Frankfurt/Main

Tel: +49-69-977-77-0

Fax: +49-69-977-77-139

Email: verlag@oekotest.de

Internet: <http://www.oekotest.de>

SÖFW-Journal (SÖFW = Seifen, Öle, Fette, Wachse – Soaps, Oils, Greases, Waxes)
16 editions per year
Verlag für chemische Industrie
H. Ziolkowsky GmbH
Beethovenstraße 16
86150 Augsburg
Tel: +49-821-325-83-0
Fax: +49-821-325-83-23
Email: vci@sofw.com
Internet: <http://www.SOFW.com>

KOSMETIK International
published on a monthly basis by the
KOSMETIK International Verlag GmbH
Eisenwerkstr. 11
76571 Gaggenau
Tel: +49-7225-916 0
Fax: +49-7225-916 109
E-Mail: ki@ki-verlag.de
Internet: <http://www.ki-online.de>

Deutsche Drogisten Zeitung (German Druggists Newspapers)
published on a monthly basis by the
ES-Fachschriften Verlag GmbH
Paul-Gerhard-Allee 24
81245 Munich
Tel: +49-89-83470 77 or 78
Fax: +49-89-8341962
E-Mail: info@deutschedrogistenzeitung.de
Internet: <http://www.deutschedrogistenzeitung.de>

Major Trade Shows

In Germany trade fairs play a major role in product marketing. U.S. companies wishing to penetrate the German market often make their first approach at major trade fairs. For U.S. manufacturers and exporters wishing to sell in Germany (and in Europe) it is important to exhibit at one of Germany's major international fairs. Exhibiting at fairs can bring direct sales, but, more significantly, it can be one of the least expensive ways to test the market's receptivity for natural cosmetics and related products. Further the strength and scope of the competition can be assessed and contacts with others "in the trade" can be established. From these contacts, U.S. companies can gather a great deal of valuable information about marketing in Germany and Europe. The most suitable trade show for the natural cosmetics industry is:

Bio Fach - the world's leading trade fair for ecological consumer goods such as health food, natural textiles, cosmetics, furniture and household equipment
to be held February 16-19, 2006 in Nuremburg, Germany
Show Organizer is the Messe Nürnberg GmbH
Detailed information is available on the internet at: <http://www.biofach.de>

In addition, U.S. companies may want to consider attending one of the following cosmetics shows:

Beauty International – International Trade Fair for Professional Cosmetics
to be held March 17-19, 2006, in Düsseldorf, Germany

Show Organizer is Messe Düsseldorf GmbH

Detailed information available on the internet at: <http://www.beauty-international.de>

Beautyworld - International Trade Fair for Perfumeries, Cosmetics, and Hairdressing
to be held January 25-29, 2006 in Frankfurt/Main

Show Organizer is Messe Frankfurt GmbH

Detailed information is available on the internet at: <http://www.messefrankfurt.com>

For cosmetics sector-related questions and information, please contact:

Ms. Uta Leuschner-Kirst

Commercial Specialist

Tel: (49) 211-73 77 67-80

Fax: (49) 211-73 77 67-67

Email: Uta.Kirst@mail.doc.gov

Internet: <http://www.buyusa.gov/germany>

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